

## Message Text

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ORIGIN SS-25

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S/S - A. OTTO  
EUR - JGLOWENSTEIN

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R 150110Z JUL 76  
FM SECSTATE WASHDC  
TO AMEMBASSY PRAGUE

C O N F I D E N T I A L STATE 174883

EXDIS - FOR AMBASSADOR ONLY

E.O. 11652: GDS

TAGS: EFIN PFOR CZ

SUBJECT: CZECHOSLOVAK CLAIMS/GOLD

1. DEPUTY SECRETARY RECEIVED DAVID SCOTT AND GUS EDWARDS  
OF ALLIS CHALMERS ON JULY 13. SCOTT SAID HE WAS CALLING  
AT THE SUGGESTION OF SENATOR LONG.

2. SCOTT GAVE THE FOLLOWING SUMMARY ACCOUNT OF HIS INVOLVE-  
MENT IN THE CZECH CLAIMS/GOLD ISSUE. WHEN HE HAD ACCEPTED  
THE CHAIRMANSHIP OF THE US-CZECHOSLOVAK ECONOMIC COUNCIL  
LAST FALL HE FRANKLY DID NOT KNOW WHAT HE WAS GETTING HIM-  
SELF IN TO. HE LEARNED THAT THERE WERE TWO PROBLEMS WHICH  
AFFECTED THE POSSIBILITY OF DEVELOPING TRADE AND COMMERCIAL  
RELATIONS BETWEEN THE US AND CZECHOSLOVAKIA. THE FIRST  
WAS SECTION 408 OF THE TRADE ACT (LONG-GRAVEL); AND THE  
SECOND WAS SECTION 402 (JACKSON-VANIK). WHEN HE WENT TO  
SEE SENATOR LONG FEBRUARY 23, HE HEARD A LONG TIRADE MOST  
OF WHICH WAS AIMED AT THE STATE DEPARTMENT. THE KEY PORTION  
OF LONG'S VIEWS, SUBSEQUENTLY REINFORCED BY GRAVEL, WAS  
THAT THE U.S. CONGRESS WOULD NOT LET THE STATE DEPARTMENT  
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NEGOTIATE A SETTLEMENT WITH CZECHOSLOVAKIA BASED ON GETTING

20 CENTS ON THE DOLLAR.

3. SCOTT WENT TO PRAGUE MARCH 2 TO LISTEN TO WHAT THE

CZECHS HAD TO SAY, AS LONG SUGGESTED. AT THIS TIME THE POSITION OF BOTH LONG AND GRAVEL WAS THAT THE U.S. SHOULD INSIST ON BEING PAID 100 PER CENT OF THE PRINCIPAL OF THE CLAIMS, ALTHOUGH GRAVEL WAS SOMEWHAT MORE CONCILIATORY IN TONE. IN PRAGUE SCOTT RECEIVED THE VERSION OF THE SITUATION AS EXPOUNDED BY DEPUTY FOREIGN MINISTER SPACIL, I.E. THE CZECHS HAD NEGOTIATED IN GOOD FAITH, THE U.S. HAD RENEGED AGAIN ON A CLAIMS AGREEMENT, THE CZECHS WERE A PROUD NATION AND WOULD NOT LET THEMSELVES BE PUSHED AROUND, THE U.S. WAS A BIG POWER, ETC. WHEN SCOTT ASKED SPACIL WHETHER THERE WAS ANY "GIVE" IN THE CZECH POSITION, SPACIL REPLIED THAT THEIR OFFER HAD BEEN TO PAY 22 MILLION DOLLARS (SIC) OVER SEVERAL YEARS. TO GET THE ISSUE OFF DEAD CENTER, SPACIL SAID THEY WOULD BE WILLING TO PAY IN A LUMP SUM. WHEN SCOTT ASKED WHETHER THERE WAS ANY FURTHER "GIVE", SPACIL REPLIED IN ESSENCE THAT THERE PROBABLY WAS BUT THAT HE WAS NOT AUTHORIZED TO MENTION IT. HOWEVER, HE OFFERED TO MEET SCOTT AGAIN.

4. RETURNING TO WASHINGTON, SCOTT REPORTED TO THE SENATORS THAT TWO HARD-NOSED POSITIONS WERE NO GOOD FOR TRADE RELATIONS. SCOTT FOUND THAT THERE WAS SOME SOFTENING IN LONG'S POSITION AND EVEN MORE IN GRAVEL'S VIEWS. GRAVEL INTRODUCED SCOTT TO MERRIGAN WHO, TO SCOTT'S SURPRISE, SAID EXACTLY THE SAME THINGS THAT LONG AND GRAVEL HAD SAID. SCOTT DID NOT KNOW WHOSE VIEWS WERE ORIGINAL.

5. SCOTT FINALLY DECIDED TO HIRE MERRIGAN AND PUT HIM TO WORK TO THINKING THROUGH SIX POSSIBLE SOLUTIONS. HE SUBMITTED SEVERAL OF THESE TO SPACIL WITH THE ARGUMENT THAT HE WAS SEARCHING FOR COMMON GROUND. THE CZECHS REACTED ANGRILY TO SOME OF THEM. AT SCOTT'S REQUEST, MERRIGAN PRODUCED TWO MORE POSSIBLE SOLUTIONS AND ONE OF THEM IN PARTICULAR SEEMED TO BE OF SPECIAL INTEREST TO THE CZECHS.

6. DURING THE MEETING OF THE US-CZECHOSLOVAK ECONOMIC  
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COUNCIL IN PRAGUE JUNE 15-16, TWO ALTERNATIVE SOLUTIONS WERE LEFT WITH SPACIL. SCOTT ALSO MET WITH DEPUTY PRIME MINISTER ROHLICEK WHO ASKED MANY QUESTIONS. BEFORE LEAVING PRAGUE SPACIL POSED A HYPOTHETICAL QUESTION TO SCOTT, NAMELY, IF THE CZECHS INDICATED THAT ONE OF THE PROPOSALS WAS ACCEPTABLE, WHAT WOULD CONGRESS DO ABOUT THE GOLD AND MFN. SCOTT SAID HE WOULD ASK CONGRESS. HE WROTE LETTERS TO LONG AND GRAVEL TO WHICH HE RECEIVED ANSWERS LAST WEEK.

THE KEY PORTION OF LONG'S LETTER SAYS IN REGARD TO THE HYPOTHETICAL QUESTION THAT WHILE LONG WOULD PREFER A 100 PER CENT SETTLEMENT AND WOULD OPPOSE ANY INSTALLMENT SETTLEMENT, HE WOULD BE WILLING TO SUPPORT CONGRESSIONAL ACCEPTANCE OF

A PROMPT CASH SETTLEMENT OF 32 MILLION DOLLARS, AND CONGRESS IN TURN SHOULD CONSTRUE THE TERMS OF SECTION 408 TO HAVE BEEN MET, THUS MAKING CZECHOSLOVAKIA ELIGIBLE FOR THE RELEASE OF THE GOLD AND FOR THE NEGOTIATION OF AN AGREEMENT LEADING TOWARD MFN SUBJECT TO SOLUTION OF THE PROBLEM OF SECTION 402. LONG EMPHASIZED HIS WILLINGNESS TO PROCEED ON THIS BASIS IF CZECHOSLOVAKIA MADE SUCH A CASH SETTLEMENT PROMPTLY AND WITHOUT FURTHER SUBSTANTIAL DELAY. GRAVEL WROTE A SIMILAR LETTER. LONG THEN TOLD SCOTT HE SHOULD SEE THE DEPUTY SECRETARY AND TELL HIM THAT IT WAS GOING TO BE UP TO THE DEPARTMENT TO NEGOTIATE A SETTLEMENT ALONG THESE LINES WITH THE CZECH GOVERNMENT.

7. THE DEPUTY SECRETARY NOTED THAT THE PROBLEM WITH MFN WAS THAT IT WAS CONTROLLED BY THE JACKSON-VANIK AMENDMENT. A TRADE AGREEMENT INCLUDING MFN WOULD DEPEND ON ASSURANCES CONCERNING EMIGRATION OF CZECHS (INCLUDING JEWS, DISSIDENTS, ETC.) AT SOME LEVEL. HE EXPRESSED SOME DOUBT THAT THE CZECHS WOULD AGREE TO GIVE SUCH ASSURANCES. SCOTT SAID SPACIL TOLD HIM THAT HE DOES NOT THINK THE EMIGRATION QUESTION IS A PROBLEM BUT THE HANGUP IS THAT THE U.S. IS STICKING ITS NOSE INTO CZECH BUSINESS. SCOTT ADDED THAT THE SENATORS SEEM TO THINK IT IS UP TO THE PRESIDENT TO DECIDE WHEN A COUNTRY HAS MET THE REQUIREMENTS OF THE ACT. THE DEPUTY SECRETARY CITED ROMANIA AS AN EXAMPLE OF A COUNTRY FORCED TO ACCEPT CONDITIONS BEYOND WHAT OTHERS WOULD BE WILLING TO DO. SCOTT SAID THAT CONGRESSMEN VANIK AND BINGHAM INDICATED THAT THEY MIGHT INTRODUCE AN AMENDMENT TO

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SECTION 402 WHICH WOULD PROVIDE THAT CZECHOSLOVAKIA IS COMPLYING WITH JACKSON-VANIK. WHILE THEY SAY THE JACKSON-VANIK AMENDMENT CANNOT BE REPEALED, THEY BELIEVE AMENDING IT MIGHT BE POSSIBLE.

8. THE DEPUTY SECRETARY SAID THERE ARE STILL MANY PROBLEMS AND HE WOULD NOT WANT TO LEAVE SCOTT FEELING THAT IT WILL BE EASY BUT WE WILL DO ALL WE CAN. SCOTT EXPRESSED AMAZEMENT THAT IN THE VIEW OF THE TWO SENATORS AND THE TWO CONGRESSMEN THE WHOLE MATTER CAN BE CLEARED UP BEFORE THE END OF THE YEAR.

9. SCOTT CONCLUDED THAT HE HAD WRITTEN SPACIL AND FORWARDED TO HIM COPIES OF THE LETTERS FROM LONG AND GRAVEL ANSWERING SPACIL'S HYPOTHETICAL QUESTION. IF SPACIL'S

REPLY IS POSITIVE, THEN IT WILL BE UP THE STATE DEPARTMENT TO GET IN TOUCH WITH THE CZECHS AND WORK OUT A NEW AGREEMENT. THE DEPUTY SECRETARY ASKED ABOUT THE SUIT BROUGHT BY THE LAWYER ON BEHALF OF SEVERAL CLIENTS. SCOTT REPLIED THAT IT WILL BE WITHDRAWN. THE DEPUTY SECRETARY

TOLD SCOTT HE HAD MADE AN IMPORTANT CONTRIBUTION IN THIS MATTER AND HE (DEPUTY SECRETARY) WILL DO ALL HE CAN TO PUSH IT ALONG AND BRING IT TO A SUCCESSFUL CONCLUSION.

10. SCOTT SAID HE WILL LET THE DEPARTMENT KNOW WHAT SPACIL REPLIED. (IN HIS LETTER TO SPACIL, HE WRITES HE CAN BE IN PRAGUE ON JULY 29 TO TALK AGAIN WITH SPACIL.) COPIES OF CORRESPONDENCE LEFT BY SCOTT ARE BEING POUCHED. KISSINGER

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